VZCZCXYZ0000
RR RUEHWEB

DE RUEHDS #3387 3601125
ZNR UUUUU ZZH
R 261125Z DEC 06
FM AMEMBASSY ADDIS ABABA
TO RUEHC/SECSTATE WASHDC 3852
INFO RUEHNR/AMEMBASSY NAIROBI 2747
RUEHGV/USMISSION GENEVA 3934
RUCPDOC/DEPT OF COMMERCE WASHDC

UNCLAS ADDIS ABABA 003387

SIPDIS

SIPDIS

E.O. 12958: N/A
TAGS: ECON ETRD EINV EAGR ET
SUBJECT: ETHIOPIA: GOE REVISES GDP GROWTH RATES UP

¶1. Summary. The Ministry of Finance and Economic Development (MOFED) significantly revised real GDP growth rates to nearly double the IMF estimate: 11.9 percent (vice 11.6), 10.5 percent (vice 9.5), and 9.6 percent (vice 7.1) in fiscal years 2003/04, 2004/05 and 2005/06, respectively. In addition to favorable weather conditions, official explanations for growth were the GOE's overarching efforts to enhance productivity in agriculture, shift farmers towards market-driven activities like producing cash crops for exports, and better agricultural inputs. The IMF and Economist Intelligence Unit argue that the reported economic growth is inconsistent with the rising inflationary pressure and balance of payments constraints. Senior IMF Resident Representative Arnim Schwidrowski estimated real GDP growth for 2005/06 to be slightly above 5 percent. End Summary.

¶2. The government revised sources and coverage of the national accounts statistics in November 2006, resulting in an average three-year growth rate of 10.7 percent. According to the GOE, from 2003 to 2006, agriculture, industry and service sectors grew an average of 14 percent, 8.5 percent, and 8.3 percent, respectively. Over 60 percent of the revised growth came from agriculture, the mainstay of the economy, contributing nearly half of the total GDP. According to MOFED, growth rates were revised to reflect a wider range of data sources, use of primary data instead of relying on trend assumptions, and greater reliance on CSA survey data for actual inputs in estimating agricultural value added.

¶3. MOFED projected 2006/07 growth to be 10.1 percent, higher than independent estimates. MOFED expects agriculture and industry sectors to grow by 10.9 percent, and the service sector by 9.6 percent. Major assumptions for the above projections include: a declining inflation rate of no more than 10 percent; further strengthening of efforts to enhance agricultural production and domestic resource mobilization; and the continuation of favorable weather conditions, resource inflow to support investment, and macroeconomic stability.

¶4. Real GDP annual growth rates in percent, as reported by MOFED. The Ethiopian fiscal year runs from July 8 to July 7. (Note: Previous GDP/Revised GDP)

FY	ANNUAL RGDP	AGRICULTURE	INDUSTRY	SERVICE
2001/02	1.0/1.6	(2.3)/(2.1)	5.8/8.3	4.6/1.7
2002/03	(3.9)/(3.3)	(12.6)/(1.4)	4.6/3.0	2.3/4/5
2003/04	11.6/11.9	18.9/17.3	6.9/10.0	6.7/7.3
2004/05	9.5/10.5	14.0/13.4	4.1/8.1	6.8/8.4
2005/06	7.1/9.6	7.3/11.2	7.6/7.4	6.9/9.2

¶5. IMF Resident Representative Arnim Schwidrowski told poloff that other economic data indicate that inflation is rising, driven by demand pressure and increasing cost of

essential imports. Schwidrowski added that the balance of payments is also under pressure, as a result of declining inflows and dwindling international reserves. According to MOFED, the twelve-month moving average CPI inflation rate reached 12.7 percent in October 2006: the highest in the last three years. Schwidrowski said the relatively high growth that appears in 2003/04 must be weighed against the severe contraction in the previous year: the result of widespread famine. Given that the country depends highly on import of intermediate and capital goods, long-term investment and macroeconomic stability will be in danger unless the above pressures abate, noted Schwidrowski. Citing the devastating socioeconomic effects of low-land floods and little margin for agriculture growth, the October 2006 Economist Intelligence Unit country report forecasted growth of the Ethiopian economy in 2006/07 to be 7 percent and 2007/08 to be 5.8 percent.

¶6. Comment. Current economic trends appear to challenge the validity of MOFED's assumptions and thus the accuracy of its revised statistics. Although the IMF has yet to officially review and comment on MOFED's revised statistics, the Fund's ResRep called the GOE's revised rates questionable. End Comment.
WILGUS